

rules of a clearing agency must be designed to promote the prompt and accurate clearance and settlement of securities transactions.

Currently, if an entity making a tender or exchange offer wants a protect period of three days, the entire reorganization must be settled on a trade-by-trade basis. By including these transactions within the CNS system, the rule change enhances the settlement procedure for such trades. Thus, the rule promotes the prompt and accurate clearance and settlement of securities transactions. Further, by including reorganizations with protect periods of three days within the CNS system, the proposed rule change may encourage the use of three day protect periods.⁷ By limiting the time the tender or exchange offer remains unsettled, the goal of risk reduction contemplated by Rule 15c6-1 is furthered.

III. Conclusion

For the reasons stated above, the Commission finds that NSCC's proposal is consistent with Section 17A of the Act.⁸

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-NSCC-95-09) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36271; File No. SR-Phlx-95-66]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to P/A Orders

September 22, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on September 15, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange

Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Phlx is proposing to amend: (i) Phlx Rule 1066¹ by adding new paragraph (h), P/A Orders (Principal Acting as Agent); and (ii) Phlx Rule 1015² by adding new paragraph (c). Below is the text of the proposed rule change. Proposed new language is in italics.

Options Rules

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Certain Types of Orders Defined

Rule 1066

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(h) *P/A Order ("Principal Acting as Agent")—A P/A order is an order received on the Exchange in the name ("give-up") of a registered floor trader on another national options exchange (i.e., an "N" account type) sent while that floor trader is holding a similar customer order in that same option series for the account of a public customer for which price improvement is sought on the basis that the PHLX is displaying a superior bid or offer.*

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Quotation Guarantees

Rule 1015

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(c) *P/A Orders—the P/A order type shall only exist with respect to those multiply traded equity options for which the originating options exchange affords reciprocal P/A treatment. P/A orders received on the PHLX must be provided with the customer volume guarantees of Rules 1015 and 1033, if the PHLX specialist agreement to accept P/A orders is reciprocated by the sending floor trader in the same option on another national options exchange. P/A orders may not be for more than the number of contracts on the customer's order and must be market or marketable limit orders. An order does not qualify as a P/A order if the customer's order on the other exchange was given an*

execution prior to the time the P/A order is sent on its behalf.

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II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Phlx included statements concerning the purpose of and basis for the proposed rule change and discussed any comments if received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to create a new equity options order designator, the P/A order, to ensure that when a floor trader (i.e., Specialist, market maker, Registered Options Trader, Lead Market Maker or Designated Primary Market Maker) from another options exchange in possession of a public customer order sends a mirror-image order³ to the Phlx to obtain price improvement for that customer, the customer will receive the benefit of that better execution price, notwithstanding that the mirror-image order has been sent in the name of floor trader. Similarly, the P/A order is intended to ensure that when a Phlx floor trader sends such an order to another options exchange, the customer for whom the Phlx order is sent receives the benefit of the better price available on that exchange.

The proposed rule change recognizes that orders received on national options exchanges in the name of public customers are provided firm quotes and volume guarantees not available to orders received in the name of broker-dealers. These volume guarantees are not insignificant, established by rule as a minimum of ten contracts and are frequently much higher.

Because orders emanating from the floor of one exchange and sent to another in multiply-listed options normally are sent in the name of the floor trader, they are often deprived of the opportunity to receive such guarantees. For example, a customer buy order may be "stopped" by a floor trader on the receiving exchange at that

⁷ Buyers sometimes purchase securities on the last day of a tender offer and tender their shares that day. Such purchasers can not deliver the securities until their purchase transactions settle. Before the implementation of T+3, a three day protect period was not practical because purchasers would not receive their securities until the fifth business day after the trade date.

⁸ 15 U.S.C. 78q-1 (1988).

⁹ 15 U.S.C. 78s(b)(2) (1988).

¹⁰ 17 CFR 200.30(a)(12) (1994).

¹ Philadelphia Stock Exchange Guide, Options Rules, Rule 1066 (CCH) ¶3066.

² Philadelphia Stock Exchange Guide, Options Rules, Rule 1015 (CCH) ¶3015.

³ A mirror-image order is an order sent by the floor trader for the exact number of contracts specified in the customer order.

exchange's displayed price of $2\frac{3}{4}$ while that floor trader sends a mirror-image order to an exchange displaying an offer price of $2\frac{5}{8}$. The floor trader sends such order under his own broker-dealer give-up. The receiving exchange's floor traders do not know that the order is for the benefit of a customer and are under no obligation to provide the order with its exchange customer guarantee. Consequently, the order may not be executed and the quote, in accordance with the "trade or fade" rules on the options exchanges, may then be changed to a $2\frac{3}{4}$ offer. Once the quote has faded to $2\frac{3}{4}$, the customer is deprived of an opportunity to receive a $2\frac{5}{8}$ fill, as the floor trader who sent the order may then fill the customer at his own exchange's displayed price of $2\frac{3}{4}$, without the concern of creating a trade-through.

As proposed herein, the P/A designator would serve to inform receiving markets that a customer order is being represented by the floor trader's order.⁴ Knowledge that the order is for the benefit of a customer will form the basis for such orders to be provided with those customer volume guarantees currently afforded to customer orders received directly by the various exchanges. Use of the P/A designator therefore will ensure that the customer receives the volume guarantee provided on the exchange displaying the superior price and will reverse the deleterious effects the trade-or-fade rules may have had in promoting fades of such prices, at least in instances where a customer order is involved. By providing orders placed in the name of floor traders, but for the benefit of customers, with public customer volume guarantees, the proposal promotes objectives of the national market system in the options marketplace. Specifically, the proposal promotes the practicability of brokers executing investors' orders in the best market.⁵ In addition, the proposal is intended to assure the economically efficient execution of securities transactions.⁶

As an interim step toward implementing these national market system objectives in the equity options marketplace, the use of the P/A designator would be adopted on a voluntary basis by Phlx floor traders and

available to any reciprocating floor traders on other national options exchanges who have agreed to execute Phlx P/A orders in the same multiply-listed options on the same basis. In preparation for such implementation, the Exchange has identified its multiply-listed options participating in the voluntary P/A designation.

To qualify as a P/A order, the mirror-image order sent by the floor trader must be for no more than the number of contracts on the customer's order in-hand and must be either a market or a marketable limit order. An order would not qualify as a P/A order if the customer's order has already been executed prior to the time the mirror-image order is sent to the Phlx. To qualify as "customer," the account for which price improvement is sought must be a non-broker-dealer account.

The proposed rule change is consistent with Section 6(b)(5) of the Act⁷ in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative acts and practices, remove impediments to and perfect the mechanism of a free and open market and a national market system, as well as to protect investors and the public interest, by improving the execution procedure for principal-acting-as-agent orders in multiply-listed options.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Phlx does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Phlx consents, the Commission will:

(A) by order approve such proposed rule change, or,

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Phlx. All submissions should refer to File No. SR-Phlx-95-66 and should be submitted by October 19, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30-3(a)(12).

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-36263; File No. SR-Phlx-95-32]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Broker-Dealer Orders on PACE

September 21, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. § 78s(b)(1), notice is hereby given that on June 12, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. On September 19, 1995, the Exchange submitted to the Commission Amendment No. 1 to the proposed rule change, which is also described below.¹ The Commission is

⁴ The Phlx will surveil for compliance with the provision to assure that its traders are sending orders on behalf of a bona fide customer account prior to such customer order being executed on the exchange where that order was routed to receive the benefit of the better price available on that exchange. The Phlx expects equivalent surveillance to be conducted on all participating exchanges.

⁵ 15 U.S.C. 78k-1(a)(1)(C)(iv).

⁶ 15 U.S.C. 78k-1(a)(1)(C)(i).

⁷ 15 U.S.C. § 78f.

¹ See letter from Gerald D. O'Connell, First Vice President, Phlx, to Glen Barrentine, Team Leader,